Q4 IIP blip may drag FY25 GDP growth down

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The dip in India's industrial output growth to 3.6 per cent in the January to March 2025 quarter from 4.1% in the preceding quarter, could adversely impact the official GDP growth estimate of 6.5 per cent for 2024-25 by up to 20 basis points (bps), economists reckon.

The National Statistics Office (NSO) second advance estimates of national income for FY25, released on February 28, had pegged GDP growth at 7.6 per cent in the final quarter of the year (Q4), factoring in industrial GVA growth at 5.6 per cent.

However, the industrial production numbers with subdued manufacturing output suggest it is unlikely to be met and could be around 4%, down from 4.5% in Q3, said Paras Jasrai, associate director at India Ratings and Research.

Aditi Nayar, chief economist, ICRA Ratings, said growth in Q4 FY25 is anticipated to fall short of the level implicit in the NSO's second advance estimate for FY25. "We project GDP growth for the just concluded year at 6.3 per cent," she said.

Gaura Sengupta, chief economist, IDFC First Bank said that the Q4 growth rate in the second advance estimate was optimistic to begin with, and is expected to be around 6.8-6.9 per cent.

"IIP should be seen in conjunction with other indicators as it tends to be volatile. High frequency data is showing improvement in rural demand. However, urban demand remains subdued. There is a pickup in freight movement and construction activity in Q4," she added.

Madan Sabnavis, chief economist, Bank of Baroda, said there can be a downside for gross value added (GVA) of the manufacturing sector as 25 per cent weightage is for the unorganised sector. "We need to see how corporate results show. Right now GST collections are good and so are service sector indicators. Downside in GDP growth can be 0.1 per cent in an extreme case if corporate profits are also down," he reckoned.

However, Rajani Sinha, chief economist, CARE Ratings believes the 6.5 per cent GDP growth estimate for FY25 may remain largely unaffected, as much of the global uncertainty is anticipated to impact Q1 of FY26 rather than the previous fiscal year.

"In fact, factors such as front-loaded inventory accumulation by firms ahead of the reciprocal tariff announcements and the festivities associated with the 'Maha Kumbh' celebrations are likely to support economic momentum in the fourth quarter. Early corporate earnings also reflect healthy economic momentum. For Q4 FY25, we estimate GDP growth to be close to 7% resulting in the full year FY25 growth at around 6.4 per cent," she added.

A note by economists at HDFC Bank on Monday said that based on high frequency indicators, growth in Q4 is currently tracking close to 7 per cent. "This implies annual growth for FY25 to print closer to 6.3-6.4 per cent," they noted.

The official GDP growth estimate of 6.5% for FY25, implied a 7.6% uptick in Q4, with industrial GVA rising 5.6%. However, industrial output trends signal this expectation won't be met.